

**REPORT OF THE AUDIT OF THE
FORMER MASON COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MASON COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the former Mason County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$992 from the prior year, resulting in excess fees of \$78,596 as of December 31, 2010. Revenues increased by \$290,999 from the prior year and expenditures increased by \$290,007.

Deposits:

The former County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James L. Gallenstein, Mason County Judge/Executive
The Honorable Frances Cotterill, Former Mason County Clerk
Members of the Mason County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Mason County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2011 on our consideration of the former Mason County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable James L. Gallenstein, Mason County Judge/Executive
The Honorable Frances Cotterill, Former Mason County Clerk
Members of the Mason County Fiscal Court

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Mason County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 23, 2011

MASON COUNTY
FRANCES COTTERILL, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State:

House Bill 537 - Revenue Supplement	\$ 61,845		
Libraries and Archives Grant	14,062	\$	75,907

State Fees For Services			5,389
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Fiscal Court			6,743
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	503,392		
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Usage Tax	1,485,119		
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Tangible Personal Property Tax	1,229,926		
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Other-

Fish and Game Licenses	5,451		
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Marriage Licenses	5,289		
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Occupational Licenses	150		
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Deed Transfer Tax	31,713		
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Delinquent Tax	143,337		3,404,377
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	7,899		
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Real Estate Mortgages	24,285		
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Chattel Mortgages and Financing Statements	39,328		
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Powers of Attorney	649		
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Affordable Housing Trust	17,202		
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All Other Recordings	14,925		
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Charges for Other Services-

Candidate Filing Fees	1,600		
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Copywork	4,105		109,993
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Other:

Refunds	17,253		
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Tax Sale Overpayments	24,200		
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Notary Fees	1,653		
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Postage	681		
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Lien Releases	6,978		50,765
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Total Revenues			3,653,174
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The accompanying notes are an integral part of this financial statement.

MASON COUNTY
FRANCES COTTERILL, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 347,843

Usage Tax 1,440,334

Tangible Personal Property Tax 403,968

Licenses, Taxes, and Fees-

Fish and Game Licenses 5,226

Delinquent Tax 11,869

Legal Process Tax 13,607

Affordable Housing Trust 17,202 \$ 2,240,049

Payments to Fiscal Court:

Tangible Personal Property Tax 129,247

Delinquent Tax 20,142

Deed Transfer Tax 30,127

Occupational Licenses 91 179,607

Payments to Other Districts:

Tangible Personal Property Tax 647,441

Delinquent Tax 68,477 715,918

Payments to Sheriff

11,717

Payments to County Attorney

19,323

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 225,166

Materials and Supplies-

Office Supplies 2,349

Other Charges-

Conventions and Travel 2,437

Postage 433

Refunds 13,294

Tax Sale Overpayments 24,200

Insurance and Bonds 5,178

Libraries and Archives Grant 14,062

Hardware and Software Lease 20,100 307,219

The accompanying notes are an integral part of this financial statement.

MASON COUNTY
FRANCES COTTERILL, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-			
Office Equipment	\$	9,756	
Election Books/Booths/Supplies		<u>7,661</u>	\$ <u>17,417</u>
Total Expenditures			<u>\$ 3,491,250</u>
Net Revenues			161,924
Less: Statutory Maximum			<u>76,104</u>
Excess Fees			85,820
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,624</u>	<u>7,224</u>
Excess Fees Due County for 2010			78,596
Payment to Fiscal Court - February 9, 2011			<u>78,492</u>
Balance Due Fiscal Court at Completion of Audit *			<u><u>\$ 104</u></u>

* Note - The former County Clerk presented a check to the County Treasurer for the Balance Due Fiscal Court on May 23, 2011.

The accompanying notes are an integral part of this financial statement.

MASON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MASON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Mason County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former Mason County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MASON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Grants

- A. The Mason County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives during calendar year 2009 in the amount of \$10,000. The balance as of January 1, 2010 was \$10,005 and funds totaling \$7,168 were expended during 2010. The grant was not completely spent by the grant end date of June 30, 2010, resulting in \$2,837 being returned to the grantor, leaving a \$0 balance in the grant as of December 31, 2010.
- B. The Mason County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives during calendar year 2010 in the amount of \$10,020. Funds totaling \$6,894 were expended during the year, resulting in an ending balance of \$3,126 as of December 31, 2010.

Note 5. Lease

The County Clerk's office committed to an annually renewable lease agreement with Software Management Inc., on April 6, 2009, for computer software. The agreement requires a monthly payment of \$1,675 for 60 months to be completed on April 5, 2014. The County Clerk's office has the option to cancel with written notice 60 days prior to the anniversary date. The County Clerk's office was in compliance with the terms of the agreement as of December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James L. Gallenstein, Mason County Judge/Executive
The Honorable Frances Cotterill, Former Mason County Clerk
Members of the Mason County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Mason County Clerk for the year ended December 31, 2010, and have issued our report thereon dated May 23, 2011. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Mason County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Mason County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Mason County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 23, 2011

